

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, JUNE 15, 2004**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, June 15, 2004, commencing at 7:03 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hitchcock (arrived at 7:06 a.m.), Howard, and Land

Absent: Council Members – Mayor Hansen

Also Present: City Manager Flynn, Interim City Attorney Schwabauer, and City Clerk Blackston

B. CITY COUNCIL CALENDAR UPDATE

City Clerk Blackston reviewed the weekly calendar (filed).

C. TOPIC(S)

C-1 "Review draft fiscal year 2004-05 Financial Plan and Budget"

City Manager Flynn projected that for the next two or three years the City should be in good financial condition. He stated that there are more than sufficient reserves to take care of the City's needs for the next three years. The City does have a structural imbalance of \$1.3 million a year and will be borrowing from its reserves to balance the budget. He reported that the state takeaway is \$2 million a year. He recalled that four years ago the City began setting aside \$1.5 million a year above its operating budget into the Capital Fund for future projects; it now totals \$4.5 million, plus interest. Overall in the capital accounts there is \$13 million. Mr. Flynn reported that there were some capital projects that should have been funded with the General Fund that were charged to other funds, which had to be reversed. He explained that it amounts to approximately \$800,000 and will be discussed at the June 16 Council meeting. He stated that the new public safety building was a \$16 million project and the annual debt service was estimated at \$1.5 million. Consequently \$1.5 million was set aside annually to demonstrate that the City had the capacity to pay the debt service. Approximately two years ago the City refinanced old debt and borrowed additional money needed to complete the public safety building, following which the annual debt service increased from \$1.3 million to \$1.7 million. Mr. Flynn reminded Council that earlier in the year he recommended that proposed capital projects (DeBenedetti Park, indoor sports center, aquatics facility, and animal shelter) be cancelled until the City's financial outlook improves. There is approximately \$6.1 million in the General Fund Capital that is un-programmed. He suggested that after the 2004-05 budget is adopted, a process begin of reviewing and prioritizing the services that each department provides. He reported that the largest growth area has been in personnel, particularly in the Fire Department where 15 positions were added over the past ten years. He stated that the Fitch Rating Agency will likely be downgrading Lodi's General Fund rating from A- to B.

In reply to Council Member Land, Mr. Flynn stated the \$6.1 million in reserve is a combination of the \$1.5 million set aside, interest earnings, and "probably" the \$350,000 transfers taken from Electric Utility. In reference to the cost of the Environmental Abatement Program (EAP) litigation, Mr. Flynn estimated that if the City borrowed \$40 million to pay for legal fees and cleanup work, at 7% interest for 20 years, it would amount to \$1.77 per household per month in increased rates.

In response to Council Member Hitchcock, Public Works Director Prima stated that the water rates were adjusted to pick up the additional cost of the Woodbridge Irrigation District contract and the \$800,000 estimated annual cost of the EAP litigation. He confirmed that no part of the rate increases were to fix any past fund balance issues.

Interim City Attorney Schwabauer explained that in January, he and Mr. Prima discussed what amount should be assumed for the EAP litigation and had decided on \$800,000 annually. This was before there was any track record of what the actual expenses were. Since then approximately \$200,000 a month has been spent on litigation, in addition to \$50,000 for consultant services.

Mr. Flynn reported that Lodi's sales tax decreased by 1.5% in the second quarter report. He noted that "no growth" cities generally have a tax structure that is much higher than other cities.

Mayor Pro Tempore Beckman asked that the topic of possible policies regarding future revenues be placed on an agenda for public discussion as to what direction the City should take, e.g. to work toward being a commercial or tourism center, etc.

Mr. Flynn agreed and stated that the outcome of such a discussion would set the strategy that the Planning Department and the City needs to focus on to remain successful and viable; otherwise, the City operates on a day to day level without a vision of the future toward what it is trying to achieve.

Council Member Hitchcock pointed out that the 2003-04 projections were off by \$1.6 million. Addressing Mr. Flynn, she asked why he was not recommending some of the cost saving measures he had offered earlier, considering that the budget now shows \$31 million in revenue and \$36 million in expenditures. Ms. Hitchcock stated that she was very uncomfortable with the recommendation to balance the budget with phantom numbers under the category of Other Sources and Uses, particularly when they never end up as predicted at the end of the year.

Finance Director Krueger reviewed the "blue sheet" entitled *2004-05 Financial Plan and Summary, Changes in the Fund Balance – General Fund* (filed; marked as Exhibit A) and presented the following information:

- Revised budget revenues total \$32,587,481;
- General Fund expenditures total \$34,490,227;
- Expenditures exceed revenues by \$1,902,746;
- The net surplus as a result of transfers in, transfers out, and Other Sources and Uses is \$4,936,836; and
- The ending fund balance as of June 30, 2005, is projected to be \$4.8 million, which is 14% of expenditures.

Mr. Krueger reviewed another document (filed; marked as Exhibit B) and presented the following information:

- The original budget for 2004-05 showed a deficit of \$5.2 million;
- Other Sources and Uses in the original budget showed a surplus of \$4.5 million;
- The structural deficit in the original budget was \$656,000;
- Recurring adjustments to expenditures amount to \$3.3 million;
- One-time adjustments to revenues amount to \$1.8 million, which is principally property taxes that would go into the Capital Outlay account in order to pay for debt service; based on staff's analysis of the Capital Outlay Fund the City has enough money to make the debt service payment and set up a reserve;
- One-time expenditure increases total \$417,000;
- Other items, which are primarily transfers, total \$1,122,795; and
- The net surplus for the 2004-05 budget totals \$3,034,000.

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Mr. Krueger reviewed page 2 (of Exhibit B) and reported that the structural deficit is \$1,338,946, which he advised needs to be cured before the next two-year budget.

Council Member Hitchcock again questioned the recommendation to defer cost savings measures when there is a \$1.3 million structural deficit in the budget.

Mr. Flynn explained that earlier in the year he was unaware of how much reserves there were in the Capital accounts, which can now be used toward the deficit. He agreed that cost saving options would be presented to Council in the next budget presentation.

D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

E. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:11 a.m.

ATTEST:

Susan J. Blackston
City Clerk